

**SOUTH DAKOTA PRE-EXISTING CONDITION INSURANCE PLAN**

**FEDERAL HIGH RISK POOL**

**AUDIT REPORT**

**December 31, 2011**

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SOUTH DAKOTA PRE-EXISTING CONDITION INSURANCE PLAN  
FEDERAL HIGH RISK POOL  
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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Dennis Daugaard  
Governor of South Dakota

and

The South Dakota Bureau of Personnel

We have audited the financial statements of the South Dakota Pre-Existing Condition Insurance Plan as of and for the fiscal year ended December 31, 2011 and have issued our report thereon dated June 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bureau of Personnel's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bureau of Personnel's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bureau of Personnel's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or

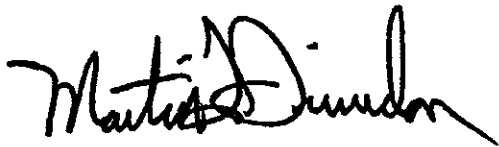
material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Pre-Existing Condition Insurance Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

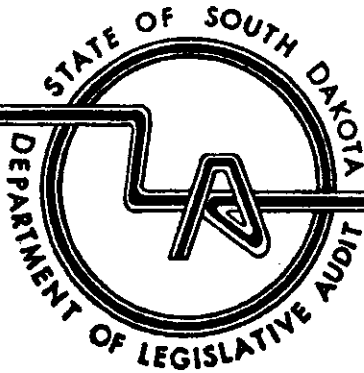
We noted certain matters that we reported to management of the South Dakota Bureau of Personnel in a separate letter dated June 25, 2012.

This report is intended solely for the information and use of management, members of the South Dakota Legislature, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Martin L. Guindon". The signature is stylized with a large, looped initial "M" and a long, sweeping underline.

Martin L. Guindon, CPA  
Auditor General

June 25, 2012



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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

## INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard  
Governor of South Dakota

and

The South Dakota Bureau of Personnel

We have audited the accompanying financial statements of the South Dakota Pre-Existing Condition Insurance Plan, as of and for the year ended December 31, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the South Dakota Bureau of Personnel's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present only the financial position and changes in financial position and cash flows of the South Dakota Pre-Existing Condition Insurance Plan. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of December 31, 2011, and the changes in its financial position and its cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Pre-Existing Condition Insurance Plan as of December 31, 2011, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2012 on our consideration of the Bureau of Personnel's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Martin L. Guindon, CPA  
Auditor General

June 25, 2012

**Bureau of Personnel**  
**South Dakota Pre-Existing Condition Insurance Plan**  
**Statement of Net Assets**  
**December 31, 2011**

**Assets**

Cash and Cash Equivalents (Note 2)	\$ 8,167
Due from Other Governments (Note 5)	1,908,209
<b>Total Assets</b>	<u>1,916,376</u>

**Liabilities**

**Current Liabilities:**

Accounts Payable	3,058
Accrued Liabilities	5,219
Policy Claim Liabilities (Note 2,3)	1,814,773
Compensated Absences Payable (Note 4)	3,915
Due to Other funds	1,219
Deferred Revenue	92,107
<b>Total Current Liabilities:</b>	<u>1,920,291</u>

**Noncurrent Liabilities:**

Long Term Compensated Absences Payable (Note 4)	3,487
<b>Total Liabilities</b>	<u>1,923,778</u>

**Net Assets**

Unrestricted Net Assets	(7,402)
<b>Total Net Assets</b>	<u>\$ (7,402)</u>

*The accompanying notes are an integral part of the financial statements*

**Bureau of Personnel**  
**South Dakota Pre-Existing Condition Insurance Plan**  
**Statement of Revenues, Expenses, and Changes in Net Fund Assets**  
**For the Year Ended December 31, 2011**

<b>Operating Revenue:</b>	
Federal Revenue Under Contract	\$ 5,746,659
Premiums (Note 2)	605,112
Other Revenue	6,812
Total Operating Revenue	<u>6,358,583</u>
<b>Operating Expenses:</b>	
Personal Services and Benefits	81,102
Contractual Services	79,251
Supplies	1,201
Insurance Claims	6,201,630
Total Operating Expenses	<u>6,363,184</u>
<b>Operating Income (Loss)</b>	<u>(4,601)</u>
<b>Change in Net Assets</b>	(4,601)
Beginning Net Assets	(2,801)
<b>Ending Net Assets</b>	<u>\$ (7,402)</u>

*The accompanying notes are an integral part of the financial statements*

**Bureau of Personnel**  
**South Dakota Pre-Existing Condition Insurance Plan**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2011**

**Cash Flows From Operating Activities**

Receipts from Customers and Users	\$ 670,882	
Receipts from Federal Contract Assessments	4,108,376	
Payments to Suppliers	(4,675,229)	
Payments for Employee Services	(76,642)	
Payments for Interfund Services Used	(21,629)	
Net Cash Provided by Operating Activities		<u>5,758</u>

Net Increase(Decrease) in Cash and Cash Equivalents  
During the Fiscal Year

5,758

Cash and Cash Equivalents at Beginning of Year

2,409

Cash and Cash Equivalents at End of Year

\$ 8,167

**Reconciliation of Operating Income to Net Cash**

**Provided (Used) by Operating Activities**

Operating Income/(Loss) \$ (4,601)

**Adjustment to Reconcile Operating Income to**

**Net Cash Provided by Operating Activities:**

**Decrease/(Increase) in Assets:**

Due From Other Governments (1,638,283)

**Increase/(Decrease) in Liabilities:**

Accounts Payable 3,058

Accrued Liabilities (141)

Compensated Absences Payable Long Term 686

Compensated Absences Payable Short Term 3,915

Due to Other Funds (50)

Deferred Revenue 58,208

Policy Claims Liabilities 1,582,966

Total Adjustments 10,359

Net Cash Provided (Used) by Operating Activities

\$ 5,758

*The accompanying notes are an integral part of the financial statements*



**South Dakota Pre-Existing Condition Insurance Plan  
Notes to the Financial Statements  
For the Year Ended December 31, 2011**

**1. Description of the Fund**

The South Dakota Pre-Existing Condition Insurance Plan (PCIP), established in 2010, is part of the State of South Dakota's financial reporting entity and is reported as an enterprise fund in the State's Comprehensive Annual Financial Report.

The PCIP, which is administered by the South Dakota Bureau of Personnel under contract with the U.S. Department of Health and Human Services, provides a health coverage option for individuals who have been denied coverage. The contract requires the Bureau of Personnel to provide coverage for the uninsured individuals who qualify under the PCIP and the PCIP is reimbursed for any costs over the amount of premium revenue received.

As the Contractor, the State of South Dakota may terminate the contract at the end of each option period by notifying the U.S. Department of Health and Human Services 120 calendar days before the planned termination. Option periods end on December 31, 2011; December 31, 2012; and December 31, 2013.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation and Accounting**

The accompanying financial statements of the PCIP have been prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying financial statements were prepared based upon the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The PCIP follows all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Operating revenues and expenses are directly related to the ongoing activities of the PCIP.

**Cash and Cash Equivalents**

Cash and cash equivalents represents the PCIP's participating interest in the State's internal investment pool held by the State Treasurer. The amount held in the State's internal investment pool is reported at fair value. The investment policy and required risk disclosures for the State's internal investment pool are presented in the South Dakota Investment Council's audit report which can be obtained by contacting Department of Legislative Audit, 427 South Chapelle, Pierre, South Dakota 57501.

**Policy Claim Liability**

The benefit claim liability amount represents the reserve for incurred but unpaid benefit claims. The amount represents actual claims paid through March 31, 2012, for services received prior to January 1, 2012.

**South Dakota Pre-Existing Condition Insurance Plan  
Notes to the Financial Statements  
For the Year Ended December 31, 2011**

**Premium Revenue**

Premiums are recognized as revenues over the terms of the insurance policies, and a liability for unearned premiums is established to reflect premiums received applicable to subsequent accounting periods.

**3. Policy Claim Liability**

Changes in PCIP's policy claim liability balances were as follows:

	<b>Beginning Balance</b>	<b>Incurred Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Ending Balance</b>
For the Year Ending December 31, 2011	\$ 231,806	\$ 6,201,630	\$ (4,618,663)	\$ 1,814,773

**4. Compensated Absences Payable**

Annual leave is earned by all employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one fourth of their accumulated sick leave balance, such payment not to exceed the sum of twelve weeks of employee's annual compensation. The total leave liability of \$7,401 at December 31, 2011, is shown as a long-term liability on the Statement of Net Assets.

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Compensated Absences Payable	\$ 2,801	\$ 6,055	\$ (1,455)	\$ 7,401	\$ 3,915

**5. Due from Other Governments/Grant and Other Income**

This income represents the federal portion owed to/received based on the contract between the U.S. Department of Health and Human Services and the State of South Dakota Bureau of Personnel to operate the Pre-existing Condition Insurance Plan.

**6. Retirement Plan**

The South Dakota Retirement System (SDRS) is a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

**South Dakota Pre-Existing Condition Insurance Plan  
Notes to the Financial Statements  
For the Year Ended December 31, 2011**

Employees were required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive benefits vests after three years of credited service. The PCIP's contributions to the SDRS for the year ended December 31, 2011 was \$3,723, equal to the required contributions each year.

**7. Public Entity Pool for Liability**

The Bureau of Personnel is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Bureau of Personnel is uninsured for property loss. The Bureau of Personnel participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include: 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omission liability, medical malpractice liability, law enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund; 2) coverage of employee medical claims through the State's health insurance program; 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund; and, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.